

# **NAVAL POSTGRADUATE SCHOOL**

## **Monterey, California**



## **THESIS**

**OUTSOURCING MARKET RESEARCH IN DEPARTMENT  
OF DEFENSE COMMODITY ACQUISITION: THE  
ISSUES, CONCERNS, AND PRIVATE INDUSTRY  
CAPABILITIES**

by

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June 2001

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**OUTSOURCING MARKET RESEARCH IN DEPARTMENT OF DEFENSE  
COMMODITY ACQUISITION: THE ISSUES, CONCERNS, AND PRIVATE  
INDUSTRY CAPABILITIES**

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## **ABSTRACT**

This thesis investigates the role of market research in Department of Defense commodities acquisition. It examines the feasibility of outsourcing market research functions in this acquisition arena, focusing on which elements of market research would be most practicable to outsource, and what capacity exists in private industry to provide market research services for the Federal acquisition environment.

Given the reduction in the defense acquisition workforce, budgetary constraints, and emphasis on acquisition reform, effective market research significantly enhances optimal use of available resources. However, general consensus among defense acquisition professionals is that market research is not conducted as effectively as possible due to limitations of time, training and management attention. While legislation has directed the use of market research for multiple aspects of the acquisition cycle, to include requirements development, maximization of competition, source selection, and emulation of better business practices, market research skills vary among DoD acquisition personnel, as does appreciation for its value as a management tool.

The conclusion is that while there are issues and concerns to be addressed when considering outsourcing market research, private industry does offer a viable alternative for conducting market research functions in DoD commodity acquisitions.

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## **I. INTRODUCTION**

### **A. PREFACE**

Market research has evolved to an unprecedented role of significance in Federal acquisition. A series of statutory changes, to include the expanding definition of commercial items, and contracting innovations such as Performance-Based Acquisition have elevated the need for effective market research. Limited budgetary resources and a shrinking defense industrial base have also contributed to significant reliance on market research as a means of stretching available resources to meet Department of Defense (DoD) needs.

### **B. RESEARCH OBJECTIVE**

Given the increased significance of market research in Federal acquisition, this thesis addresses the viability of outsourcing market research functions in Department of Defense commodity acquisitions. It will consider which elements of market research would be most feasible to outsource, and what capacity exists in private industry to provide market research services.

### **C. RESEARCH QUESTIONS**

#### **1. Primary Research Question**

Does private industry present a viable option for outsourcing all or part of the market research activities required to support DoD commodity acquisitions?

#### **2. Subsidiary Research Questions**

- What is the purpose of market research in DoD commodity acquisitions?
- How are the market research functions currently performed in DoD commodity acquisitions?

- Are there organizational or other factors that limit DoD's ability to perform successful market research in commodity acquisitions?
- Are there market research functions in commodity acquisitions that must be performed by Government personnel?
- What market research functions are currently available from private industry?

#### **D. SCOPE, LIMITATIONS, AND ASSUMPTIONS**

The scope of this thesis will be to present the historical evolution of market research in DoD procurement resulting from regulatory changes and acquisition reform, examine current market research procedures in DoD commodity acquisition, and present issues and concerns associated with outsourcing market research at a DoD commodity acquisition activity. An analysis of those elements of market research that are most feasible to outsource combined with private industry's capability to provide market research services will facilitate acquisition strategies in DoD with regard to optimal resource allocation.

This research is limited to an analysis of market research in DoD commodity acquisitions, and the viability of outsourcing some or all of the market research functions to private industry accordingly. While there may be similarities between this acquisition arena and other Government settings, the researcher cautions against application of this research to organizations other than the DoD commodity environment without due consideration for unique differences in organization goals.

The researcher assumes that the reader has a general understanding of the Federal procurement process, as well as an appreciation of the benefits of market research in today's acquisition environment.

## **E. METHODOLOGY**

The methodology used in this thesis research consisted of three primary areas: a literature search, a written qualitative questionnaire, and telephone interviews. The literature search traced the evolution of market research in Government acquisition and provided the researcher with a greater understanding of both the benefits of market research and the resource requirements for conducting effective market research.

The qualitative questionnaire was aimed at enabling the researcher to understand the role, methodology, and value of market research in DoD commodity acquisitions in particular, as well as the perception among this group of acquisition personnel as to the quality of market research conducted. The questionnaire was distributed electronically to facilitate quick responses. Of note, the researcher met with some resistance on the part of DoD managers to distribute the questionnaire to personnel, due to the prevailing sensitivity to anything termed "outsourcing". As a result, the researcher relied on the discretion of commodity supervisors to control distribution to their personnel as preferred. A sample of the questionnaire distributed is provided as Appendix A.

Telephone interviews were conducted with personnel at both DoD acquisition activities and private corporations in the business of providing market research services. Candid telephone conversations with senior DoD acquisition personnel confirmed an overall sentimentality that market research is not a core competency in Government acquisition, and some differing opinions as to whether it ought to be. Conversations and electronic correspondence with private industry indicated a willingness to provide market research services, but different methodologies in charging for such transactions.

## **F. BENEFITS OF RESEARCH**

This thesis is intended to primarily benefit DoD commodity acquisition activities, in regards to optimizing market research efforts. The critical review will facilitate DoD acquisition decision-making regarding the most effective means of conducting market research, thus adding benefit to the Government.

## **G. ORGANIZATION OF THE STUDY**

Chapter I provides an introduction, the objective of the research, the primary and subsidiary research questions, the scope, limitations, and assumptions of the research, the research methodology, the benefits of the research, and the organization of the study.

Chapter II delineates the evolution of statutory regulations regarding market research, and provides definitions for market research, commercial items, and outsourcing.

Chapter III presents the questionnaire results as a means of highlighting the purpose of market research in commodities acquisition. It also presents information obtained from private industry as to market research services available and their applications to the commodities acquisition environment.

Chapter IV is the discussion and analysis of the feasibility of outsourcing from private industry all or part of the market research activities required to support DoD commodity acquisitions.

Chapter V presents the conclusions and recommendations generated by this research. It also provides areas for further research on the topic of market research.

## **II. DEFINITIONS AND BACKGROUND**

### **A. INTRODUCTION**

Market research has evolved to an unprecedented role of significance in Federal acquisition. While a series of statutory changes in conjunction with efforts toward acquisition reform have led to this prominence, there is an interesting difference in how the Government views market research as compared to private industry.

This chapter will present definitions of market research, which shed light on the differing viewpoints, as well as provide definitions of the two phases of market research: market investigation and market surveillance. Commercial items and outsourcing will then be defined as they relate to the focus of this research. Next, the evolution of statutory regulations that have brought market research to the forefront of Federal acquisition will be presented, followed by some highlights from a General Accounting Office (GAO) report in the wake of these regulatory changes.

### **B. DEFINITIONS**

#### **1. Market Research**

The Federal Acquisition Regulation (FAR) provides a simple definition of market research as “collecting and analyzing information about capabilities within the market to satisfy agency needs.” (FAR, Part 2) The General Services Administration (GSA) further defines it as, “...the process used for collecting and analyzing information about the entire market available to satisfy minimum agency needs. The results of market research are used to arrive at the most suitable approach to acquiring, distributing, and supporting supplies and services.” (McCormack, 1997)

In contrast, Polowczyk's thesis research disclosed a recurring theme of broader perspective within the commercial industry. As one interviewee was quoted, market research in industry is a "detailed investigation of the supply chain by the procurement activity by commodity, products, supplier and industry to optimize the competitive position." (Polowczyk, 1996) Commercial businesses have been employing market research in a variety of competitive environments for decades, as a means of achieving long-term goals.

By comparing how the Government and industry view market research, it can be generalized that Government's position has historically been more narrow, reactionary, and goal-oriented versus the commercial industry perspective of the process as an ongoing, investigative function that aids a firm's competitive edge. But this record is changing, as multiple DoD commands, such as the Naval Supply Systems Command and the Defense Supply Center, Columbus, are expending increased efforts on supply chain management (Defense Supply Center Columbus, 2001).

For clarification, *market research* is different than *marketing research*. Marketing research focuses on understanding opportunities to sell goods and services, capitalizing on product development, and influencing buyers to have a preference for one product or service over another (McCormack, 1997). But the differences are actually a matter of perspective. This definition of marketing research can be modified to define market research in Government acquisition, as a means of understanding opportunities for buying goods and services, capitalizing on product development, and leveraging knowledge of the marketplace to one's advantage in acquisition. The researcher found

that the following definition of market research provided by McCormack most effectively reflects the current threads of acquisition reform:

Government's market research is the process by which all pertinent data necessary to the rendering of a prudent business decision, specifically regarding the acquisition of goods and/or services, can be effectively and efficiently attained, analyzed and utilized to ensure a best value acquisition is achieved. (McCormack, 1997)

While this definition readily lends itself applicable to understanding the marketplace and capitalizing on commercial best practices in the pursuit of best value in acquisitions, it is a tall order to collect "all pertinent data."

## **2. Market Investigation and Market Surveillance**

As mentioned, market research is a means of understanding opportunities for buying goods and services, capitalizing on product development, and leveraging knowledge of the marketplace to one's advantage in acquisition. Clearly, these benefits are not derived solely from short-term goal-oriented efforts. Rather, they are the collective proceeds from both perpetual information gathering as well as more focused investigative actions.

As market research has evolved, so has the widely accepted distinction made between market investigation and market surveillance as the two types or phases of market research. While market investigation "focuses on the present need, or requirement, only...market surveillance is an ongoing activity." (McCormack, 1997)

Acquisition personnel rely on market investigation as a means for gathering information pertinent to the acquisition at hand. The multitude of uses that can be derived from market investigation includes, among others (NCMA, 1998):

- Definition of requirements
- Determination of commercial item availability
- Fair and reasonable price determination
- Determination of the practicality of modifying requirements in order to buy commercial items/services
- Identification of standard business practices, e.g. warranty and service contracts
- Estimation of the competition anticipated
- Evaluation of sources
- Obtaining reference information
- Socio-economic investigation

In contrast to the short-lived nature of market investigation, market surveillance is a sustained, strategic effort of information collection. It is a tool for understanding such aspects in the marketplace as technology trends and economic indicators. Applications of market surveillance information include (NCMA, 1998):

- Strategic planning
- Monitoring of technological trends and industry capabilities
- Monitoring of product development and availability
- Gaining competitive advantage
- Identification of supplier base
- Informed decision making
- Price versus performance trade-offs
- Understanding stability of industries
- Monitoring market trends and economic indicators

These two phases of market research, market investigation and market surveillance, serve to compliment one another. The extent to which information is garnered during one phase will likely reduce efforts required in the other phase. While market investigation directly serves the efforts of obtaining immediate requirements in an

efficient, effective manner, it can also serve to enhance market surveillance efforts in understanding trends in the marketplace, technology, and product development. Equally significant are the positive contributions that market surveillance information can make to decision-making in support of specific acquisitions.

### **3. Commercial Items**

The statutory regulations provided in section C below depict the Government's growing preference for commercial items over developmental items (NCMA, 1998). That preference is founded in the belief that the purchase of commercial items, priced by the marketplace, maximizes competition, minimizes costs and promotes fair treatment of all offerors. The definition of a commercial item has been expanded to such an extent as to make it increasingly challenging to define a non-commercial item in Government acquisition. With the partiality toward commercial items, understanding the marketplace becomes paramount in Federal procurement.

The FAR defines a commercial item with few loopholes, by including all items and services "of a type" typically found in the commercial marketplace. The definition further endorses modifications of commercial items that are "of a type" customarily found in the marketplace or which are minor in nature. (FAR, Part 2) The onus is now on the acquisition workforce to find commercial items or services that meet agency needs, or revisit the requirements. Effective market research is a critical tool to achieving this end.

### **4. Outsourcing**

Outsourcing is the "movement of work to an outside provider that has been or might be performed in-house." (Brower, 1997) The decision to outsource is most

commonly recognized as the “make vs. buy” decision. In regards to this research, outsourcing refers to obtaining market information from an entity outside of the commodities acquisition organization, with the focus specifically on private industry in its capacity and appropriateness as a source of market research in the commodities acquisition arena.

Sensitivity to the term “outsourcing” is often encountered as a direct result of the increased application of OMB A-76 studies throughout Federal organizations. Outsourcing is commonly seen as a threat to job security and “carries very negative and contentious connotations”, as opposed to being recognized for its value as a manpower supplement, in light of manpower shortages, conflicting priorities, and time constraints (Anonymous, Feb 2001). It is with these later values in mind that the researcher presents the viability of outsourcing some or all market research functions to private industry.

### **C. EVOLUTION OF STATUTORY REQUIREMENTS**

As mentioned, the recent trend in Government acquisition regulations has been to endorse commercial items over developmental items, emphasize the use of competitive procedures in Federal contracting, and conduct market research to achieve these goals.

The following regulatory changes demonstrate the evolution of this trend.

#### **1. The Competition in Contracting Act of 1984**

The Competition in Contracting Act (CICA) emphasized a “Federal acquisition environment which fostered full and open competition” (McCormack, 1997), and required the use of market research to maximize participation by all interested and responsible sources.

## **2. Section 800 of the National Defense Authorization Act of 1991**

The National Defense Authorization Act recommended that DoD increase use of commercial items, and “further emphasized using commercial practices, to include market research, in order to improve the acquisition process.” (McCormack, 1997)

## **3. The Federal Acquisition Streamlining Act of 1994**

The Federal Acquisition Streamlining Act (FASA) created a statutory preference for commercial products and services, and identified the order of priority in Government acquisition as commercial items, then nondevelopmental items (NDI), and finally developmental items. To this end, FASA stipulated additional market research requirements for all Federal executive agencies, and required that agencies conduct market research before developing specifications and before soliciting bids or proposals for a contract over \$100,000. (GAO, 1996) Additionally, FASA required that market research be used to identify customary commercial practices and costs regarding customizing, modifying, or tailoring of items to meet customer needs. (GAO, 1996)

## **4. The Federal Acquisition Reform Act of 1996 and the Information Technology Management Reform Act of 1996**

Collectively the Federal Acquisition Reform Act and the Information Technology Management Reform Act were codified as the Clinger-Cohen Act. A significant result of this Act was that the Government “will be permitted and encouraged to eliminate competitors after initial evaluation of proposals based on the principle of efficient competition.” Clinger-Cohen emphasized market research as the tool to “predict potential offerings and to establish benchmarks for potential price and technical variables.” (Smith, 1998)

## **5. Federal Acquisition Regulation**

The FAR recognizes market research as a tool for identification of sources to ensure competition and commercial products to meet an agency's needs. A few examples of market research techniques listed in the FAR are (FAR, Part 10):

- Contacting knowledgeable individuals in the Government and industry regarding market capabilities to meet acquisition requirements.
- Reviewing the results of recent market research undertaken to meet similar or identical requirements.
- Publishing formal requests for information in technical or scientific journals or business publications.
- Querying Government databases that provide information relevant to agency acquisitions.

## **D. MARKET RESEARCH IN THE POST-FASA ERA**

There are varying opinions today on how effectively the Government conducts market research. Even though market research is expected to be the starting point in all Federal acquisitions, it is often thought that "in-depth market research efforts, including an exploration of the commercial marketplace and an identification of the terms and conditions that are appropriate for the items being acquired, have not been a normal part of acquisition for the Federal buyer." (Ireton, 1998)

To determine the scope and span of market research in Government acquisition following the changes imposed on buyers by FASA, in October 1996, the General Accounting Office (GAO) submitted a report on the Government's market research efforts. The focus of the GAO report was aimed at identifying Government market research efforts regarding commercial items and NDI, and reviewing the feasibility of a Government-wide database for storing, retrieving, and analyzing market data. (GAO, 1996)

Not surprisingly, GAO found that a wide variety of market research efforts and practices exist in Federal procurement with regard to commercial items/services and NDI. Equally predictable was that the characteristics of each buy (dollar value, nature of the buy as new or recurring, and rate of technological change in the industry) typically influenced the type and extent of market research conducted. GAO also found that DoD emphasized market research more than civilian agencies due to previously established regulations for DoD as a result of the National Defense Authorization Act of 1991. (GAO, 1996)

As to the feasibility of a Government-wide database for market data, GAO found that Government and industry officials were not in favor of it, due to the costs associated in exchange for perceived minimal benefits. They preferred the Internet as a market research tool. GAO concurred that a Government maintained database to "store, retrieve, and analyze market data" should not be created. (GAO, 1996) The problem with providing wide discretion for individual agencies to establish their own market research procedures and databases, as with any mandated effort, is that inconsistent market research procedures will produce various degrees of valuable information.

#### **E. CHAPTER SUMMARY**

The foregoing information provides insight to the evolution of market research in Government acquisition. The uses of market research are expanding commensurate with the rate of acquisition reform and electronic technological progress. What was once a basis for understanding the marketplace to meet Government needs has become a key ingredient in all phases of acquisition. Market research is intrinsically linked to: requirements development based on maximizing the use of commercial goods or services

and NDI over non-commercial goods and services; source selection to ensure adequate competition and/or identification of small business interest and other socio-economic pursuits; price analysis to determine fair and reasonable price; and trend analysis to understand technology, economic conditions, and production processes.

This chapter provided definitions of market research and its two phases – market investigation and market surveillance, commercial items, and outsourcing, in order to facilitate understanding of these concepts as they relate to this research. The regulatory framework within which the Government acquisition community operates with regards to market research was delineated, as well as the results of a GAO report following FASA.

### **III. MARKET RESEARCH QUESTIONNAIRE RESULTS AND REPRESENTATIVES FROM PRIVATE INDUSTRY**

#### **A. INTRODUCTION**

In this chapter, the researcher presents the questionnaire results as a means of highlighting the purpose and methods of conducting market research in commodities acquisition, organizational or other factors that may impede market research efforts in this setting, perceptions regarding what functions must be performed by Government personnel, and awareness of market research services available from private industry. The researcher will also present information obtained from private industry as to actual market research services available and their application to the commodities acquisition environment.

#### **B. QUESTIONNAIRE BACKGROUND**

The questionnaire, provided in its entirety in Appendix A, was distributed to personnel in commodities acquisition functions at Defense Supply Centers (DSCs) in Philadelphia, Columbus, and Richmond, as well as one senior officer at Defense Logistics Agency (DLA) Headquarters, Fort Belvoir. The researcher received twenty submissions, from nineteen respondents. Of the twenty returned questionnaires, five were submitted by personnel at DSC Philadelphia, seven from DSC Columbus, and six from DSC Richmond. The remaining two submissions were from one senior officer at DLA Headquarters, who provided answers from his experience in two commodity categories; hence the researcher will treat his answers as two distinct replies.

Of note, the researcher met with some resistance on the part of DoD managers to distribute the questionnaire to personnel, due to the prevailing sensitivity to anything termed “outsourcing”. As a result, the researcher relied on the discretion of commodity supervisors to control distribution to their personnel as preferred.

The questionnaire was devised in order to garner information in the following areas:

- Name and contact information of respondent (optional).
- Respondent's past and/or current experience and responsibilities in DoD commodity acquisitions.
- The purpose of market research in commodity acquisitions, grouped by market surveillance and market investigation functions.
- The techniques and references employed to perform market research.
- Organizational or other factors that limit optimal performance of market research.
- Perceptions on whether certain market research functions must be performed by Government personnel.
- Knowledge of market research functions/services available from private industry.

Questionnaire responses will be presented in the following paragraphs. Where data accommodated a summary of answers, such has been provided. Otherwise, longer answers have been listed below the applicable question.

## C. QUESTIONNAIRE QUESTIONS AND RESPONSES

### 1. Respondents' Experience Levels and Responsibilities

Respondents were given the option of providing their name and contact information or submitting their answers on an anonymous basis. Among those responding, six chose to remain anonymous.

Of the fifteen respondents who provided information on their experience in DoD acquisition, their collective background includes over 250 years in the field. Individually, their years of experience range from four to 34, with only one respondent possessing less than 10 years of experience.

Respondents' current and/or previous acquisition assignments and commodity experiences include: Procurement Manager for Contract Services Division; Industrial Specialist, Medical Support Division; Division Chief, Clothing and Textile; Division Chief, Contract Support Division; Supply Officer, DLA Headquarters, Troop Support; Inventory Manager, Weapon System Support Area; Inventory Manager, Emergency Supply Operations Center; Supervisor, Customer Support Division; Unit Chief, overseeing supply technicians who primarily support overseas customers' with part numbered requirements; Logistics Analyst; and Contract Specialist, Construction Equipment and Corporate Contracts.

## **2. Purpose of Market Research in Commodity Acquisitions**

In order to understand the purpose of market research in commodity acquisitions, over both the short and long-term perspectives, the researcher posed questions under the separate headings of *market surveillance* and *market investigation*. In these two areas, the researcher asked the respondents to state whether certain market research functions take place in their organization. For each function that was taking place, respondents were asked to evaluate how well the market surveillance and investigation functions were conducted, by answering "exceptionally", "adequately", or "marginally". The questions and a summary of the responses are provided herein:

### *a. Market Surveillance*

In this section of the questionnaire, the researcher asked the following question to ascertain which market surveillance functions take place in the respondents' organizations, and how well the functions are accomplished.

**Question:** Do the following market surveillance functions take place in your organization's commodity acquisitions? If yes, how well?

**Responses:** Table 3.1 summarizes the respondents' answers.

Market Surveillance Functions	Yes, exceptionally			
	Yes, adequately	Yes, marginally	No, does not take place	
Identifying Sources of Supply	8	10	1	1
Price v. Performance Trade-Offs	8	9	3	0
Gaining Competitive Advantage	5	7	3	5
Informed Decision Making	3	13	3	1
Monitoring of Technological Trends and Industry Capabilities	2	10	7	1
Monitoring of Product Development and Availability	2	9	6	3
Understanding Stability of Industries	2	9	6	3
Strategic Planning	1	15	3	1
Monitoring Market Trends and Economic Indicators	1	12	3	4

Table 3.1. Respondents' Answers to Market Surveillance Functions.  
[Source: Developed by Researcher]

**b. Market Investigation**

Here, the researcher asked whether the following market investigation functions take place, and how well they are accomplished.

**Question:** Do the following market investigation functions take place in your organization's commodity acquisitions? If yes, how well?

**Responses:** Table 3.2 summarizes the respondents' answers.

Market Investigation Functions	Yes, exceptionally			
	Yes, adequately	Yes, marginally	No, does not take place	
Source Evaluation	9	8	2	1
Determining Fair & Reasonable Price	8	10	2	0
Defining Requirements	5	13	0	2
Determining Commercial Item Availability	5	12	3	0
Socio-Economic Investigation	5	11	3	1
Estimating Level of Competition Anticipated	4	13	2	1
Understanding Standard Business Practices	3	13	4	0
Determining Practicality of Modifying Requirements	3	10	5	2
IOT Buys Commercial Items				
Obtaining Reference Info	2	16	0	2

Table 3.2. Respondents' Answers of Market Investigation Functions.  
[Source: Developed by Researcher]

*c. Additional Comments*

Respondents were given the chance to add additional comments regarding the purpose and effectiveness of market surveillance and market investigation functions. One respondent provided this comment to amplify his answer of *marginal* regarding the effectiveness of many market surveillance functions:

Source Controlling Authority by the Navy marginalizes many efforts in the technology, industry, and sourcing areas. The Navy dictates sources and charges DLA \$1,200 to ask them to review suggested changes. The system is set up to be resistant to change and to limit the use of price versus performance trade-offs.

*d. Market Research Strengths*

This question was aimed at identifying market research areas that the respondents view as strengths at their activities. Thirteen respondents answered with a variety of perceived strengths. The two most common strengths identified are in the areas of price reasonableness determination and source identification. Some representative responses are provided below.

**Question:** Are there areas of market research functions that you perceive as definite strong points in your organization's commodity acquisitions?

**Responses:**

- Market research functions are exceptionally strong in troop support items as there is a direct correlation between DLA items managed and the private sector. In all commodities, pricing is exceptionally strong based on lessons learned.
- Our organization has gained great competencies in identifying potential sources and determining price versus performance trade-offs through the extensive use of best value source selection procedures. These competencies flow through to investigation functions such as price reasonableness determination and source evaluation. Also, the organization has focused on obtaining commercial items in lieu of items

via Military Specifications, and has gained great competencies in this area as well.

- Acquisition offices that focus on a specific commodity or sector normally have substantial experience and knowledge of their industry relative to trends and sources.
- There is very broad and effective use of market research for long-term contracts. Much less takes place on fixed quantity contracts and purchase orders.
- Creativity; We are effective at finding inefficiencies in our buying practices and then weaving partnerships with industry that clearly demonstrate the DLA commitment to more efficient and reliable operations.
- Identification of sources of supply. This is not to say that we are exceptionally quick, but we are generally able to procure everything we require. Also, although it is not very popular politically, we are effective at finding ways to combine multiple items onto a larger, more cost-effective acquisition that can still be procured using competitive procedures.
- Market investigation through the use of commercial software and subscriptions makes data available regarding Government acquisitions and other Direct Vendor Delivery (DVD) commodities descriptions.

*e. Market Research Weaknesses*

The question in this section was aimed at identifying market research areas that the respondents view as notable weaknesses at their commands. Seventeen respondents answered this question. The most common weakness identified was in the area of commercial item determination. A sampling of the responses is provided below.

**Question:** Are there areas of market research functions that you perceive as notable weaknesses?

**Responses:**

- In hardware, identification of industry segments, their normal and best business practices, has historically been weak. DLA has implemented a Strategic Sourcing program of which a part is to perform significant market research to better understand the industry segments, the overlaps,

the business practices, and what DLA can best incorporate and leverage to improve our acquisition practices.

- The ability to determine commerciality in accordance with FAR Part 2 definitions is troublesome, especially given the number of acquisitions and relatively low dollar value. Due to the wide range of commodities and applications, it is impractical to accomplish market research to the degree that a definitive determination can be made on an item. We often lump hundreds or thousands of Federal Supply Classifications (FSCs)/National Stock Numbers (NSNs) into a category and make a broad assumption about their nature. Also, the ability to decide whether a modification is minor or "of a type" is particularly difficult in a high-volume operation.
- There is difficulty in implementing radical changes discovered through market research due to too many naysayers, policies, and inflexible systems.
- Determination of commercial status is a weakness. Ironically, after we identify sources of supply, we are often too ready to accept the contractor's position on the commerciality of the items.
- Technical personnel performing market research functions appear to be concerned that labeling an item as commercial will result in the loss of control over the item.
- Defining our requirements for the future. The field users do not let us know until the situation is critical.
- When items transfer in from other centers, there is no history, no source list, and no background. It's considered a first time buy to us, though it isn't really.

Collectively, the responses regarding strengths and weaknesses provide a general sense that competencies exist in the traditional acquisition roles such as identifying sources of supply and determining fair and reasonable price, but that weaknesses center on newer responsibilities such as determining commerciality of items and identifying industry's best business practices.

### **3. The Techniques and References Employed to Perform Market Research**

To identify what techniques and references are most commonly used to conduct market research in DoD commodity acquisitions, the researcher asked respondents to

indicate "often", "seldom" or "never" next to a series of options. The question and a summary of the responses are provided below.

*a. Market Research Methods and Resources*

Table 3.3 summarizes the respondents' answers to the following question, with responses presented in descending order of market research methods and resources most frequently used.

**Question:** Are the following methods or resources used to conduct market research in your organization?

**Responses:** Table 3.3 summarizes the respondents' answers.

*b. Additional comments*

The respondents were given an opportunity to expound on the methods and resources used in conducting market research in their organization. One respondent added that his organization *often* uses Defense Contract Management Agency (DCMA) as a resource for market research. Yet another expounded on the use of customers as a source of market research. His comments follow:

We also use customers as a source of market research. DSC Philadelphia (DSCP) is not the final user of parts we buy. We essentially act as a broker for our customers. We need to learn their needs and desires as part of our market research. But in the process, we need the sources they may have used in the past to buy around us, and [we need] the pricing they experienced. Sometimes such data is difficult to obtain since customers are protective of such information lest their budget be cut if the man-hours they used to expend on logistics support can be replaced by a Prime Vendor type contract put into place by DSCP. As a result, we often must make assumptions and enter into contracts, then market them to our customers. Afterwards we may have to make significant contractual changes since reality is quite different than the assumptions used to enter into the contracts.

Market Research Methods & References	Often	Seldom	Never
		0	
Company representatives	18	2	0
Company catalogs or brochures	18	2	0
Acquisition history files/databases	18	1	1
Commerce Business Daily announcements	16	3	1
Internet searches	16	3	1
Index indicators, (eg, CPI)	15	5	0
Trade shows	14	5	1
Industry publications	12	7	1
Government publications	12	8	0
Online publications	12	8	0
Bureau of Labor and Statistics	11	8	1
Market surveys	10	9	1
Industry forums	10	8	2
General Services Administration, Federal Supply Schedules	10	7	3
Supplier references	9	10	1
Professional journals	8	11	1
Trade associations	6	13	1
Supplier surveys	5	12	3
National Institute of Standards and Technology, American National Standards Institute	5	12	3
Yellow pages	3	15	2
Support services contractors	3	13	4
Chamber of Commerce	3	8	9
Commercial Advocates Forum	1	8	11

Table 3.3. Respondents' Answers to Market Research Methods and References.  
 [Source: Developed by Researcher]

#### **4. Organizational and Other Factors Inhibiting Optimal Performance**

In order to ascertain which organizational and other factors limit successful market research at these DoD activities, the researcher posed a series of questions regarding internal and external perceptions on the effectiveness of market research, as well as the organizational structure and other factors that might hinder market research performance.

##### ***a. Market Research As A Core Competency***

In this section, the researcher asked respondents to state whether market research is a core competency in their commands. Respondents were divided, with eleven responding *yes* and nine responding *no*. Two comments, which are provided below, highlight the significance of commerciality issues as related to market research.

**Question:** Is market research a core competency in your organization?

**Responses:** A sampling of the responses is provided.

- It is a core function, but given the commerciality issues (FAR Part2), we have yet to achieve widespread competency.
- With the shift to commercial practices taking place at DLA, market research has received more emphasis. However, the majority of market research actions are limited to high dollar procurements (\$500,000 and up) and long-term contracts.

##### ***b. Internal Perceptions of Market Research Effectiveness***

Respondents were asked to consider whether perceptions of those within their organizations are that market research is effective or not. Again, the respondents were divided, with nine responding *yes* and eleven responding *no*.

**Question:** Do you think that the personnel working in your organization perceive market research as effective in your organization?

**Responses:**

- I believe that many people in the organization do not perceive actual tasks performed as market research, yet these tasks are components of the functions listed under market research. The conclusion is that the organization is more effective in conducting market research than is perceived.
- It depends on the person's outlook and expectations. Yes, we are effective at implementation of incremental change. No, we aren't so effective as a whole at radical change. We have pockets of success.
- I do not think all people understand the purpose. For me, the purpose is to try to understand the contractor's organization and process and my customer's needs, then use that knowledge to tailor my project in an attempt to bridge both in the best way possible. Too frequently I have seen market research, rather surveys intended for research, used as something other than research. In those cases, it is often expected that the contractor will simply agree to our expectations, perhaps DVD, when in fact it may not be able to, due to the nature of its production process or the supply and demand of competing markets for raw materials. In these cases, the survey data are ignored.

The common thread in these comments is an evident lack of understanding of the purpose and benefits of market research.

**c.      *External Perceptions of Market Research Effectiveness***

In contrast to the previous question, here the respondents were asked to consider whether perceptions of those external to their organizations are that market research is effective or not. Again, the respondents were divided; but this time they showed considerable uncertainty, collectively providing eleven *no* answers, one *yes* answer, and eight *not sure* responses. Additional comments provided to this question are presented below.

**Question:** Do you think that those external to your organization perceive market research as effective in your organization?

**Responses:**

- Some of our customers think we are [effective] due to our implementation of the Prime Vendor program.
- [This is] hard to answer. We don't ask our customers; but using sales growth as a proxy for customer satisfaction, I believe external organizations perceive our market research as effective.
- I believe some do, particularly contractors who are exposed to it more. I believe it would be more effective if our long term and corporate projects had specific focal points on the supply side, not just general points of contact for reviewing data requests. If we had item managers/supply specialists who were focused on a group of projects, in lieu of thousands of NSNs (essentially corporate item managers, much like corporate contract specialists) we would likely get better, more accurate data for our projects and have better customer identification and interaction. This observation is specific to particular projects not overall organizational planning.

*d. Grouping of Working Units*

Here, the researcher asked the respondents to select the manner in which working units in their organizations are grouped. The options were grouping by: *knowledge or skill*, as in engineering, market research, finance, and contracting, among others; *product*; *customers or clients*, based on such differentiation as DoD military service, mission, or region; *geography*; or *other arrangement*. The breakdown of responses follows. In those instances where the respondent indicated a hybrid or mixed structure, with two or more methods of grouping, the answer is recorded under *hybrid*.

**Question:** How are working units grouped in your commodities purchasing organization?

<u>Grouping Method</u>	<u>Responses</u>
Knowledge or skill	0
Product	10
Customers or clients	0
Geography	0
Hybrid (descriptions below)	6

Other, Multifunctional Teams	3
No answer	1

The hybrid answers were described as follows:

- On the macro level, the Inventory Control Points (ICPs) are distinguished by product. Each ICP is grouped by product, skill, and sometimes customer, not geography.
- Most are grouped by product. Even those grouped by skill (comptroller, legal, etc.) are subgrouped into teams to support product lines.
- Grouped by knowledge, product, and geography (as a subset of product.)
- Grouped by Commodity Business Units (CBUs), except for Prime Vendor groups based around customers with broader range of hardware items.
- By knowledge, product, and customers/clients. Some groups are customer-oriented, others product-oriented. With the product groups are functional distinctions.
- By FSC groups, then by service (customers).

*e. Market Research Responsibilities*

The researcher queried respondents to determine how market research responsibilities are assigned, as a primary or collateral function.

**Question:** Are there personnel in your organization with the sole function of performing market research, or is the function incorporated into other positions?

<u>Market Research Function</u>	<u>Responses</u>
Sole function	2
Incorporated into other positions	13
Both situations exist	3
Not sure	2

**f. *Market Research As A Primary Responsibility***

These answers correspond to the previous question; specifically for those individuals indicating that market research is either a sole function or that both situations exist (*sole function and incorporated into other positions*).

**Question:** If market research is a sole function, are market research specialists assigned to the working units or does one specialist support multiple units?

<b><u>Market Research Specialist</u></b>	<b><u>Responses</u></b>
Supports multiple units	3
Supports one unit	2

**g. *Experience Level of Market Research Specialist***

Since most of the respondents indicated that market research is a secondary or collateral function or they were not certain about how it was assigned, there were only a few respondents who estimated the experience levels of the market research specialists at their commands. Those who did provide a response indicated that the experience level ranged from medium to high, with one stating an estimated seven to twelve years experience for those conducting research.

**h. *Sharing of Market Research Information***

Respondents were asked which methods of market research information sharing occur between working units. They indicated all methods that apply. The respondents themselves provided the answers listed under *other methods of sharing information*.

**Question:** Is market research information shared between working units? If so, how?

<u>Sharing Market Research Information</u>	<u>Responses</u>
No sharing occurs	3
Yes, sharing occurs:	
Via database	12
Via hard copy acquisition files	10
Other methods of sharing information:	
Personal contact	3
DLA's Automated Best Value System	1
Conversational advisories	1
E-bulletin board/email	2

*i. Factors Hindering Successful Market Research*

Respondents were asked whether certain factors hindered the successful outcome of market research. The summary of responses is organized in descending order to highlight those factors having the greatest impact. Some of the respondents' amplifying comments are provided below the summary of responses.

**Question:** Which of the following factors hinder your organization's ability to perform successful market research?

<u>Factors</u>	<u>Responses</u>	
	<u>Yes</u>	<u>No</u>
Lack of experience or knowledge in methods	16	4
Lack of perceived value for effort	16	4
Short-run versus long-run management horizons	13	7
Inadequate management information systems (MIS)	11	9
Diversity of products	10	10
Geography	3	17

**Additional comments:**

- Doing today's work versus finding ways to better do tomorrow's work is a significant hindrance.

- The majority (90%) of procurements are under the Simplified Acquisition Threshold (SAT). Therefore, market research is usually reserved for “hard to buy items” or long-term contracts.
- There is a lack of perceived value and unwillingness to change. Frequently, the benefits are not seen or it is misperceived that it is a waste of time when in fact in the long term it results in cost savings. Do it right the first time.
- Lack of time and overwhelming workload [hinder market research].
- There is a lack of experience, particularly regarding “commerciality”.

*j. Improving Market Research*

Here, the researcher asked the respondents their opinions on how to improve market research efforts in order to make it a core competency.

**Question:** If you think that market research is not a core competency, how would you improve market research in your organization?

**Responses:** A sampling of the responses is provided.

- In my particular area at present, there is no issue with doing market research in a competent, effective manner. My previous experience was that if the party being researched did not provide the answer expected or desired, the party was considered a problem. Those being surveyed may alter positions as we do more market research/discuss projects, but they may not do so to our total satisfaction. Accepting that and working with it will improve market research.
- Increase training in Management Information Systems (MIS) that support “at your desk” research.
- Make it a core competency and develop supplier profiles from a centralized team that takes a broad strategic look at the supplier base, regardless of DoD buying command, and assists in implementation of more effective practices.
- DLA needs to eliminate DoD specific contract language and really simplify and streamline commercial practices. Other non-DLA buying activities ignore much of what we follow.
- The only way this will become a core competency is if it can be shown to directly influence our support for our military customers. This decision that market research is critical must come from the executive or senior manager level before it can be inculcated into the ethos of the workforce.

Until such time, it will not be pursued with any more effort than is necessary to meet minimum statutory requirements.

- Educating the vendor/industrial base. Make sure that whatever businesses we deal with really understand our mission and how market research helps us accomplish it.

***k. Focusing on Reputation and Perceptions***

The respondents varied in their opinions on how to improve their organization's reputation for effective market research.

**Question:** If you think that market research is a core competency, but is perceived as less than effective, how would you improve your organization's reputation in this area?

**Responses:** A sampling of the responses is provided.

- DLA is attempting to strengthen market research through its Strategic Sourcing (SS) Program. SS is aimed at creating corporate acquisition strategies for hardware items across the three ICPs. Market research is one of the four basic blocks of the plan. The elements of market research are identifying and leveraging automated tools, best practices, industry trends, and then developing acquisition strategies that may focus on the product, a weapon system, specific customers, or a combination of some or all three. There is an additional element that DLA is pursuing – manufacturing processes and material used to make hardware items. Currently, DLA tends to buy items based on previous supplier history. The focus on manufacturing processes is to intelligently gather items together that can be produced on a similar set of equipment. This gathering would allow a manufacturer to keep a production line running which would reduce production lead-times, and item costs because repeated setup and teardown charges would be eliminated.
- Increase participation in industry trade organizations, conferences, and shows. Provide more access to journals following industry trends, events, economic indicators, and so forth. Introduce specialty positions in market research.
- Reinforce by giving classes [in market research], briefings, and showing success stories, methods and tools of market research.
- Improve clarification of “commerciality” in the FAR. Provide additional office automation training in databases. Hiring of more operational research and analysis personnel.

***L. Additional Comments Regarding Factors Influencing Effective Market Research.***

This section allowed respondents to provide additional comments on challenges to effective market research.

**Comments:**

- Doing today's business in a downsized environment represents a significant challenge that hinders forward-looking market research.
- Production workload pressures (more than 400 buys on one's desk) tend to result in following the path of least resistance rather than resulting in market research. Production is easily measured and the consequences of ineffective market research can be masked or hidden because post award problems can arise for a number of different reasons. Effective market research is not easy to quantify.
- Since items our team buys are not demanded frequently enough to warrant the assignment of an NSN, each buy can be challenging. We try to develop relationships with many distributors who can assist in searches within particular commodities.

**5. Functions That Must Be Performed By Government Personnel**

This section was left open for individual observations. Many respondents took the liberty of providing their opinions alone without regard for regulations, while others confined their answers to current guidance. Many focused their answers on the ultimate use of the market research as their determining factor. Some representative answers are provided below.

**Question:** Are there market research functions that must be performed by Government personnel?

**Responses:**

- Pricing is the only market research function that Government personnel should perform. All others could be performed by private industry.
- FAR Part 10 prescribes policies and procedures for conducting market research to arrive at the most suitable approach to acquiring, distributing,

and supporting supplies and services. Since the results of market research studies will influence Government decisions and strategies in these areas, I believe that Government personnel should perform the market research studies.

- I think the nature of looking into market competition, production capabilities, estimated costs, and performance are all negotiation sensitive issues that should be safeguarded along with all other pre-award information. Only Government personnel should conduct market research that garners any specific information in anticipation of Government procurement.
- A problem inherent to contracting out for market research is the element of information as power. Those who have control of the information have the power and can greatly influence decision-making and strategy to the detriment of the taxpayer.
- Under current regulations, a Contracting Officer must determine whether the item is commercial by definition.
- Government folks must interpret it, but contractors can do the work.

## **6. Market Research Services in Private Industry**

The researcher asked respondents to indicate which, if any, market research services they knew were available from private industry, and which they would find most valuable in commodity acquisitions.

### ***a. Desired Market Research Services***

Here, the researcher asked respondents to identify what market research services they would value most if available from private industry.

**Question:** If private industry were to offer market research services, which market research functions would you see as most valuable in commodity acquisitions?

### **Responses:**

- Source identification; This function serves to expand the socio-economic reach of Government acquisition, speed up the acquisition process, and bring more competition into the marketplace to create more favorable pricing conditions.

- Comparison of commercial products from different manufacturers for equivalency, and for comparison with the military NSN item.
- Database or data mining tools and services.
- Nothing more than general statistics or trends in a particular industry, such as the next trend in micro circuitry, etc. Government personnel should conduct all other market research.
- Something out of our jurisdiction, namely staying up with technology. Researching customers' local purchase habits and prices, when they pay to go around the supply system.
- Perhaps monitoring and advising on the technological advances in industry, product development, and industry stability.

***b. Awareness of Market Research Services in Private Industry***

This section addressed the respondents' knowledge of market research services available in private industry. The responses are presented in descending order according to those services receiving the most yes answers.

**Question:** Do you have knowledge of market research services available from private industry in the following areas?

<u>Market Research Services</u>	<u>Responses</u>	
	<u>Yes</u>	<u>No</u>
Source identification	15	5
Industry standard practices	15	5
Trend analysis	13	7
Requirements definition	9	11
Source evaluation	9	11
Price analysis	9	11
Commercial product/service identification	8	12

***c. Additional Comments on Using Private Industry***

**Responses:**

- The e-commerce trend in both Government and private sector will supplant some traditional market research functions by the structure of the e-commerce platforms. As an example, Ariba manages 14,000 suppliers.

They require detailed information about the parts and processes they produce to create a sourcing mechanism for customers. That will supplant traditional market research and speed up the source identification process significantly.

- [We] would have to ensure that the research firm or individuals are unbiased.
- We used a well-known firm to tell us how to group by industry product sector, and the solution we paid for didn't fly with the industrial base or our internal processes.
- Market research services would be best suited for acquisition offices that are responsible for a multitude of items and services and lack the specific knowledge.

## **D. MARKET RESEARCH IN PRIVATE INDUSTRY**

### **1. Representatives from Private Industry**

To identify what capacity exists in private industry as a source of market research services for the DoD commodity acquisition environment, the researcher communicated electronically, via telephone, and in person with individuals from firms in the business of market research. Some of those firms include FreeMarkets, Sullivan & Associates, and e-RL. Additionally, the researcher spoke with a representative from GSA regarding existing contracts for market research services, and reviewed the GSA Internet web site to identify available services through the GSA Federal Supply Schedules (FSS). The results of those interactions and research efforts will be discussed in the following paragraphs.

### **2. FreeMarkets, Inc.**

FreeMarkets, Inc. is a self-proclaimed market making organization. Headquartered in Pittsburgh, Pennsylvania, with corporate offices located nationally and internationally, FreeMarkets offers the services and technology necessary to execute online auctions in a real-time environment. Their online markets enable suppliers to

compete in real-time, downward price auctions for raw materials, commodities, and services. (FreeMarkets, 2000)

FreeMarkets offers a combination of advanced technology, market operations support, market information and market-making services. Advantages it touts include: independence for a level playing field; market efficiency in bringing together the right buyers and sellers and creating a win-win situation; volume that drives performance and helps determine results; integration with other technology solutions; fast, measurable savings to buyers; and global reach, as evidenced by its dealings with buyers and sellers in 64 countries and language assistance in 30 languages. (FreeMarkets, 2001)

Their Supply Market Specialists have the capacity to generate customized supplier lists, and to facilitate supplier evaluation. Their Supply Research Specialists assist in supplier responsibility determinations through profile screenings and photo-documented site visits to assess quality systems, manufacturing plants, and financial health. Through in-depth capability profiles, FreeMarkets maintains specific capability information by industry and commodity, including: materials and processes used; industry specific quality certifications; machinery sizes and abilities; engineering functions; and plant capacities. Their global industry-aligned market making teams have located suppliers around the globe with experience in the areas of metal fabrication, electrical/electronics, raw materials, plastics/rubber, equipment/engineering, paper and packaging, services, transportation and asset recovery. Although their expertise is in the area of facilitating e-commerce solutions through their online auctions, they also work with buying organizations to implement market-based purchasing strategies. (Thomas, 2001)

### **3. e-RL**

Headquartered in Fairfax, Virginia, e-RL (for e-xtended Reach Logistics) is a single Internet portal for customers to reach manufacturers and suppliers. It is a closed system exclusive to DoD, which provides commercial repair part support and commercial component repair to military and Government contractor organizations when the legacy supply system cannot satisfy requirements. To use e-RL's services, customers must submit requests for quote (RFQs) via the World Wide Web. According to e-RL, their value added services include: increased speed in receiving critical spares and components; no cost until services are used; no development costs to customers as e-RL assumes development costs; and customer satisfaction via commercial speed and competitive pricing. (e-RL, 2001)

### **4. Sullivan & Associates**

Sullivan & Associates advertises as a full-service market research firm based in Monterey, California, that specializes in custom-designed, in-depth surveys and analysis to help industry, Government, and nonprofit organizations meet goals. Among their services that are most applicable to the DoD commodity acquisition environment are: identification and evaluation of market trends; market surveys; and databased strategies. Sullivan & Associates counts the following Government organizations among its client list: City of Monterey; Housing Rehabilitation Services; U.S. Army; and the Monterey Peninsula Water Management District. (Sullivan & Associates, 2001)

### **5. General Services Administration**

The GSA web site ([www.gsa.gov](http://www.gsa.gov)) provides access to multiple services contracts via their online FSS e-library schedules. Whether searching for management, consulting,

or market research services, surveys or price analysis support, there are numerous options available through this resource. (GSA, 2001)

Searching their Internet site under the keywords *market research* revealed Schedule 738 I, a multiple award schedule offering market analysis, marketing, media analysis, and public relations services. Although the focus for the contractors in this schedule is primarily marketing and public awareness, they also offer industry trend analysis that could prove useful in market research pursuits.

Yet another alternative is Schedule number 874 for Management, Organization, and Business Improvement Services (MOBIS). GSA's MOBIS Schedule 874-1 contains 650 contractors offering a range of research, analysis, consulting, and management services.

#### **6. Application to Commodity Acquisition**

Of the private organizations summarized above, each presented unique capabilities with some application to the commodity acquisition arena. For example, FreeMarkets is able and willing to provide services in source identification, source evaluation, industry trend analysis, identification of standard business practices, price analysis, commercial products and services identification, and requirements definition. Their likely method of charging for these services would be on an hourly rate basis. (Thomas, 2001)

On the other hand, e-RL has the capability of providing services in source identification, source evaluation, price analysis, and commercial products and services identification, but is not equipped to provide trend analysis or requirements definition.

Their pricing technique would be centered on providing customers the best price plus their margin, as well as quoting labor rates where more appropriate. (Glynn, 2001)

The smallest market research organization summarized in this chapter is Sullivan & Associates. Their experiences to date make them a good candidate for market surveys and industry trend analysis. While they lack background in some of the market research functions applicable to commodity acquisitions, their unique capabilities in databased strategies may provide options for creating labor-savings measures and other efficiencies for DoD.

Finally, GSA provides a ready-made resource for negotiated market research service contracts, each varying in its focus and available services.

#### **E. CHAPTER SUMMARY**

In this chapter, the researcher presented the questionnaire questions and responses from knowledgeable DoD commodity acquisition personnel. Their responses provide insight to the purpose and methods of conducting market research in commodities acquisition, factors hindering effective market research, assessments regarding what functions should be performed by Government personnel, and the respondents' awareness of market research services available from private industry. The researcher also presented summaries of market research services available from three private firms, as well as an overview of their applicability to the commodities acquisition environment. Finally, a snapshot of GSA services contracts bearing market research relevance was provided.

## **IV. ANALYSIS OF QUESTIONNAIRE RESULTS AND ISSUES ASSOCIATED WITH OUTSOURCING MARKET RESEARCH**

### **A. INTRODUCTION**

Given the shrinking industrial base, limited budgetary resources, and emphasis on acquisition reform, effective market research can provide an important tool in optimizing the use of available resources. In this chapter, the researcher will analyze whether the existing market research capabilities in DoD commodity acquisitions can or should be supplemented by outsourcing these services from private industry.

This chapter is aligned around the research questions presented in Chapter I in order to set the stage for analyzing the issues and concerns associated with outsourcing market research in support of DoD commodity acquisition. In doing so, the researcher will refer to respondents' answers to the questionnaire (Appendix A) that were presented in Chapter III. This chapter will also focus on which elements of market research would be most practicable to outsource, and what congruence exists between private industry's capabilities and DoD's market research needs.

### **B. THE PURPOSE AND FUNCTIONS OF MARKET RESEARCH IN DOD COMMODITY ACQUISITIONS**

#### **1. Purpose of Market Research**

Respondents' opinions on which market surveillance and market investigation functions are conducted most effectively can be drawn as a parallel for the purpose of market research in DoD commodity acquisition. It can be surmised that those functions most identified as being conducted "exceptionally well" in Tables 3.1 and 3.2 are

representative of the goal or purpose of these efforts. This conclusion stems from the researcher's theory that an organization develops competencies around internalized priorities.

In Table 3.1, Market Surveillance Functions, the functions receiving the most "exceptionally well" answers are "Identifying Sources of Supply" and "Price Versus Performance Trade-offs", earning nine of 20 and eight of 20 respectively. In Table 3.2, Market Investigation Functions, "Identifying Sources of Supply" and "Determining Fair and Reasonable Price" both earned eight of 20 "exceptionally well" answers.

In contrast, those functions receiving the fewest "exceptionally well" answers, such as "Monitoring Market Trends and Economic Indicators", "Strategic Planning", "Determining Practicality of Modifying Requirements in Order to Buy Commercial Items", and "Obtaining Reference Information" could be presumed as having less relevance in this particular acquisition arena, or at least to be valued as less important in accomplishing the mission so as to not warrant effort at increasing skills in these areas.

The effect of failing to establish strengths in these areas could have relevance to the organizations' effectiveness in the long run. While the strengths are oriented toward more short-term functions in support of the immediate requirements, the market research functions with longer perspectives receive less attention. Even though the impact of incomplete information is unknown, there are increased risks associated with making contracting decisions based on partial research efforts. For example, failure to recognize significant trends in industries may lead to less effective contracting decisions associated with selecting contract terms and conditions, thus increasing cost, schedule, and performance risks.

Another way to analyze respondents' answers regarding the effectiveness of these functions is in conjunction with the market research strengths and weaknesses highlighted by respondents in Chapter III, paragraphs C.d. and C.e. Review of these answers reveals an interesting alignment of market research strengths and weaknesses. Not surprisingly, at the respondents' activities, market research strengths are aligned with traditional acquisition roles, such as source identification and evaluation, determining the level of competition anticipated, and price analysis. The one exception to this is in the area of price versus performance trade-offs, which has recently received more emphasis due to best value acquisition strategies and performance-based acquisitions. One likely contributor to this as a strength is due to its bearing to historical price analysis requirements.

Market research weaknesses presented by respondents closely correlate to the newest acquisition requirements associated with mandated preferences for commercial items, performance-based requirements, and emulation of commercial industry's best business practices. The weakness highlighted most by respondents' explanatory comments is commerciality determination. The issue of commerciality, to include reasonable modifications to enable buying commercial items and services, is a continual thread of concern for the respondents. Although respondents' comments indicate that there are pockets of expertise in the area of locating commercial items to fill agency needs, the comments overall reveal a wide variety of interpretations of items as "commercial" between interpreters.

Such inconsistencies in interpretation threaten to offset potential gains achieved through commercial buying practices. If buying commercial goods and services is

advantageous to DoD, but the buying community is not putting forth maximum effort to hone these skills, the commercial effort will not be optimized. Failure to achieve competencies in commercial buying practices and other acquisition reform mandates will delay the intended gains of these initiatives, and diminish support for the programs from the acquisition workforce, legislators, and budget personnel. When initiatives do not return the expected efficiencies they are vulnerable to being overshadowed by newer programs promising greater outcomes.

Even with existing competencies in such areas as source identification, there are deterrents to making the right decisions, such as the restriction imposed by the Navy's dictating sources and charging a fee to review source changes. Such a constraint stands as a limitation to maximizing competition, and discourages thorough market research for identifying new sources. Yet, informed decisions can be made by conducting market research in conjunction with a Business Case Analysis (BCA) to determine whether the lifetime savings associated with changing sources outweighs the one-time fee charged by the Navy to review the recommendation. The perception by the respondents that the Navy's fee for reviewing proposed source changes is a barrier to developing new sources should be viewed more as means for them to concentrate their research efforts on changes that offer the biggest financial return.

While it is reasonable to anticipate that effectiveness in traditional roles would be high, it is surprising to see that many of the forward-looking processes that have grown from recent acquisition reform initiatives, such as strategic planning and understanding standard business practices, received relatively high marks of "adequate". These two categories received 15 of 20 and 13 of 20 "adequate" votes respectively. Due to the

relative newness of these requirements, the researcher would have expected these functions to be "marginal" or "does not take place" for more of the respondents. This result may reflect either the recognition for the long-term value of many acquisition reform initiatives or the need to show some progress in these areas due to prevailing expectations, or both.

## **2. Methods for Conducting Market Research**

According to respondents, the methods and sources most often used for conducting market research are heavily weighted toward those options that the researcher views as readily accessible and passive in nature. Table 3.3 provides an overview of respondents' answers. For example, the most common sources of market research are company representatives, catalogs or brochures, and acquisition history files, each receiving acknowledgment from 18 of 20 respondents that they are "often" used for market research. In contrast, the Commercial Advocates Forum (CAF) received the least votes of "often" (one of 20) and the most votes of "never" (eleven of 20).

Although the organizations could most certainly benefit from increased usage of many of the lower scoring items in Table 3.3, the rare usage of the CAF points out a key area for improvement. Taken in conjunction with the stated difficulties with commerciality determination, the researcher found it ironic that there is comparatively little use of the CAF. The goal of CAF is to "assist Department of Defense commercial advocates in promoting the acquisition of commercial items and the use of commercial practices. Its primary purpose is to disseminate information to front-line buyers, to enable exchanges of questions and answers, and to share best practices and lessons learned." (CAF, 2001) The researcher strongly believes that the CAF presents an

opportunity to alleviate some of the difficulties being experienced with regard to this present-day issue.

### C. BARRIERS TO SUCCESSFUL MARKET RESEARCH

Respondents sent a clear message that "lack of experience" and "lack of perceived value" stand in the way of effective market research. Both these areas received positive acknowledgement from 16 respondents as inhibiting factors. Next in line was the short-run horizon of management, with 13 respondents placing blame on this factor. This third factor is consistent with the comments that market research efforts are more effective for long-term contracts, as all personnel, to include management, would likely consider the effort worthwhile and could justify allocating resources. However, this rationale fails to consider the collective impact of repetitive purchases under short-term contracts when conducted with incomplete market research information. Such impact can be just as detrimental or even more costly than awarding long-term contracts without full knowledge of the marketplace.

One respondent indicated that forward-looking market research is hindered by doing today's business in a downsized environment, while another inferred that production workload pressures of hundreds of buys on one's desk lead to short cuts. Since the negative effects of poor market research cannot be easily quantified, it falls prey to other more pressing priorities. Similarly, putting scarce resources of time, money, personnel, management information systems and other assets into market research is not desirable if the perception is that it doesn't reap a definable, quantifiable benefit. Again, it is likely that this shortsighted view will lead to long-term inefficiencies.

Regulations support a pick-and-choose mentality. Under the Simplified Acquisition Threshold (SAT), the regulations allow for discretion in conducting market research. This is clearly the cost-versus-benefit caveat that allows contract managers the option to not conduct market research for low value acquisitions, unless there is insufficient information to support decisions. While this logic may apply to many one-time or less frequent purchases under the SAT, failure to conduct a thorough analysis of the market can have long-term negative effects. Although the benefits may not outweigh the costs of conducting significant market research for a single buy, when an item is bought repeatedly over several years, as is often the case in the commodities Inventory Control Point environment, the cumulative long-term benefits can many times exceed the market research expenses.

Another factor that affects market research outcomes involves the assignment of market research responsibilities. Specialists with the sole function of conducting market research for one or more units are uncommon; with only five respondents indicating such a role exists in their organization. Of these five, two stated that market research is solely assigned to a market research specialist, while the other three acknowledged that other multi-tasked personnel do some market research as well.

Yet, in commercial industry, it is widely recognized that companies can reduce buying risk by spending “considerable effort and resources to become experts about the products and services they buy.” At the Price-Based Acquisition (PBA) Industry Roundtable, the PBA Study Group heard from the H. J. Heinz Company “that they employ people whose sole jobs are to completely understand the market – the technology, cost, applications.... Having access to this highly specialized expertise is one of the

reasons that commercial industry can successfully do price-based acquisition." (PBA Study Group, 1999)

Even with the shift toward such practices as price-based acquisition and commercial item preference, DoD commodity acquisition activities do not commonly align market research responsibilities around an individual or group of subject matter experts. The researcher views this as a risky condition, in that the embedment of market research functions within other contracting responsibilities dilutes the attention it receives throughout the acquisition process, and makes it vulnerable to other priorities. As mentioned by respondents, it is common for heavy workloads and the short-term perspectives of management to contribute to ineffective market research efforts.

Whether or not individuals within working units at these DoD commodity acquisition organizations should be assigned primary responsibility for market research depends on the size of the organization, and its ability to devote full-time personnel to this role. However organized, these activities should evaluate the best configuration for their settings to ensure market research receives foremost attention throughout the acquisition process.

Along with this issue rests the question of whether market research should be developed as a core competency for contract specialists throughout DoD, or if the function should be assigned to specialists alone. With the mandated and practical reliance on market research throughout the various phases of acquisition, the researcher believes that buyers should possess the capability to conduct market research as both an ongoing activity and in support of specific acquisitions. Market research specialists in turn should be fully knowledgeable of the acquisition process and the supportive role of

market research throughout. Developing market research as a core competency for contract specialists, and filling market research positions when established with experienced contract specialists would facilitate this symbiotic relationship.

On a positive note, market research information is usually shared between working units, but the methods of sharing varied somewhat. Only three respondents stated that no sharing occurs. Methods of sharing are typically via database and hard copy acquisition files, along with other less formal methods such as personal contact and email. DLA's Automated Best Value System, which enables buyers to access vendor performance information, exemplifies an effort to capitalize on knowledge sharing.  
(Anonymous, 2001)

But the makeshift methods of documenting and sharing market research information stand as a true hindrance to effective research efforts. Lack of consistency in documentation and data access leads to inconsistencies in research outcomes and related contracting decisions. Thus, standardizing data management and information sharing within individual Supply Centers and DoD overall presents a tremendous opportunity for enhancing market research efforts, while improving recognition of its value to the acquisition process.

With the prevailing emphasis on teaming efforts comes the old adage that "two heads are better than one". This concept applies to market research as well. Where teaming efforts and regular communication bring buyers and users together, clear advantages exist for discussing innovations, alternatives, and challenges associated with acquisitions, as well as the sharing of market research information. This same relationship is vulnerable to information withholding as is said to occur at one of the

activities, when users are protective of previous buying information. So, while the relationship between users and buyers can provide a synergistic advantage, it can do so only if communication is reliable and forthcoming. Similarly, when buyers can reference previous market research information gathered by other DoD personnel, the benefits are significant, ranging from manpower savings to ideas for alternative methods of research. The challenge stems from knowledge management, and the best means of storing and retrieving such information.

Respondents within these DoD organizations have different opinions as to how effectively market research is conducted. As such, internal perceptions about effectiveness of market research suffer from lack of recognition for its value. Market research is often not recognized for its role in accomplishing the more conventional actions of locating sources, evaluating past performance, and price analysis. Thus, while core competencies have existed in many market investigation methods, they are not always labeled as market research. The same level of competence has not developed in the more strategic and broader scoped efforts of market surveillance that are common in commercial business practices, such as monitoring industries and understanding cycles in the market in order to gain a buying advantage.

But such a focus is contrary to the highly regimented, requirements-driven and funding-oriented mechanisms of DoD procurement. “Timing” the market is not consistent with standard defense commodities acquisition practices, even if it may make prudent business sense. Hence, while market surveillance may provide insight to technology, trends, and economic indicators, there are simultaneously obstacles to taking advantage of the information. These obstacles can take the form of short-term

management perspectives, inflexibility in the acquisition process, and perceptions that costs of market research won't be recouped or directly associated with benefits.

#### **D. MARKET RESEARCH FUNCTIONS GOVERNMENT MUST PERFORM**

The application of market research information in decision-making is essential to acquiring goods and services in an efficient manner, and to ensuring the integrity of the acquisition process. Therefore, the analysis and application of market research information and the safeguarding of such information as to ensure a level playing field are essential functions that the researcher views as integral responsibilities of Government personnel.

But how to obtain the information remains the question. Do current regulations allow a contracting officer or contracts manager to contract out for market research? A few excerpts from FAR Part 10 support an answer to this question. First, agencies must conduct market research appropriate to the circumstances. This would indicate that if an agency deems that current and/or future needs warrant contracting for market research, then choosing this route would be an option. Additionally, the FAR lists several techniques for conducting market research, which includes contacting knowledgeable individuals in industry regarding market capabilities to meet requirements. (FAR, Part 10)

Market capabilities encompass such aspects as product availability, technologies, techniques and processes, key players, economic cycles and trends, and standard business practices. This would seem to endorse the use of an outside source for obtaining such information if suitable to the circumstances. As long as the authorized agency representative makes the appropriate determinations – such as whether sources exist to

satisfy requirements, if commercial items exist to meet needs, and whether there is adequate competition – the integrity of the process can be preserved.

Respondents indicated a concern over the issue of information as power and potential negative influence on decision-making and strategy. This warrants consideration. But if market research information can be applied in such a manner as to retain a level playing field in acquisition, there should be little argument against buying market research efforts when the decision to do so has been obtained through a rational cost versus benefit approach.

Those costs and benefits reach farther than the obvious contractual expenses and direct application of market research information. They can also include such issues as socio-economic concerns and process integrity, lost or gained skill sets, and perceptions of customers, buyers, and other stakeholders. These are some of the issues and concerns that will be examined further in subsequent sections of this chapter.

#### **E. CONGRUENCE BETWEEN GOVERNMENT NEED AND PRIVATE INDUSTRY CAPABILITIES**

The paradox of commodities acquisition is that the non-developmental, often repetitive-purchase nature of commodities and total volume of acquisition efforts are such that effective market research offers the potential for significant cost avoidance through increased competition and market timing decisions associated with valid agency needs. However, it is this very nature of repeat purchases and existing market awareness which leads those involved in this environment to grow confident of their knowledge and familiarity to such an extent as to become less motivated to pursue further information. The perceived marginal benefits, often based solely on an instant procurement basis, pose

a significant disincentive. The inference here is that market research is considered less necessary because the buyers' basic level of knowledge, of the industry and its key players, inhibits additional effort, especially in market research where the benefits are not easily quantified. This same attitude makes outsourcing for market research less appealing for it appears imprudent to buy something about which we are already familiar. In fact, one respondent said as much when indicating that outsourcing market research is "best suited for offices that are responsible for a multitude of items/services and lack the knowledge." (Anonymous, 2001)

Those respondents who articulated personal preferences for obtaining market research information from private industry listed a variety of options, to include those areas following the traditional acquisition roles, such as source identification to speed up the acquisition process and increase competition. The less traditional roles respondents listed as valuable included identification of standard practices, commercial product comparison to military NSNs, data mining tools and training, statistics or trend analysis in a particular industry, and monitoring technology advancements.

One respondent's comment, that there are many market research services that he would see as valuable to outsource, was finished with a qualifier that the services should not be tailored to an agency's needs. This leads to the question of whether outsourcing market research services would be a commercial service or design-based requirement? Clearly, commercial industry employs market research firms for their own gain, even if their motives and goals are different than those of DoD. However, the most notable differences, such as socio-economic concerns and industrial base sustainment issues, are

surpassed by the commonality of DoD's and commercial firms' desires to minimize costs while obtaining Best Value for the organization.

Acquisition reform initiatives, which have led to the reduction of applicable regulations, while simultaneously increasing the focus on alternative approaches such as best value trade-offs, performance-based acquisitions, price-based acquisitions, and commercial item preference, have collectively resulted in greater reliance on industry for direction through best business practices, technology development, innovation, Statement of Work development, and teaming efforts. Together, these changes in the acquisition arena represent a multitude of measures that have aided in recent reductions of the acquisition workforce while they have facilitated the sustainment of operations. Yet, these changes have simultaneously increased the requirement for market research efforts throughout the acquisition process.

In union with these evolving changes, the Under Secretary of Defense for Acquisition, Technology, and Logistics has made market research part of his Acquisition Reform Target Curriculum for continuous learning. The brief description, provided in a recent memorandum for Defense Acquisition Workforce Functional Advisors, states that the market research curriculum will focus on, "teaching strategies for locating and using commercial and DoD information. The course is designed for participants for the various functions (requirements/contracting/users/etc) that interact throughout the acquisition cycle." (USD (AT&L), Feb 2001) The inference in the phrase "locating and using commercial...information", much like the guidance discussed in FAR Part 10, appears to be an endorsement for using commercial sources to obtain market research when the

circumstances warrant it, which would include purchasing such services from private industry.

Interestingly, the greatest concern among respondents over weaknesses in market research functions, specifically with regard to commerciality determination, was also the area where respondents were the least aware of private industry capability, with twelve of 20 negative responses. Knowledge of available market research services for such information as "industry standard practices" and "locating sources" received the highest confidence levels, with 15 of 20 respondents indicating awareness of these services in private industry. "Trend analysis services" came next at 13 of 20.

Clearly, the representatives from private industry presented in Chapter III, possess a range of expertise, applications, and methodologies. FreeMarkets, Inc., for example, advertises to offer global presence, advanced market research technologies, commodities expertise, customized supplier lists, supplier responsibility determinations via site visits and assessments of quality systems, manufacturing plants, financial health, and market-based purchasing strategies, among other contributions.

The overarching question here is, does private industry present a viable option for outsourcing all or part of the market research activities required to support DoD commodity acquisitions? Based on private industry's capabilities alone, it does. However, while there are considerable capabilities in private industry with regard to market research, outsourcing for such services is a decision that must be made on an individual basis by each DoD commodities acquisition organization.

It is unrealistic and overly costly to consider outsourcing all of the market research efforts, for the mere nature of acquisition activities at these contracting

organizations is such that market research both facilitates and is obtained by other related roles such as source identification and evaluation. The areas most viable and presenting the greatest potential benefits in this environment are centered on those research efforts of long-term strategic importance, where competencies fall short, such as keeping up with market trends and stability, understanding economic cycles and indicators, and monitoring technological and product developments.

Market investigation functions, such as source evaluation and price reasonableness determination represent those areas of greatest existing competencies, and therefore do not appear to present significant marginal benefit to outsource. These functions should continue as the focus in developing market research skills for DoD commodities acquisition personnel.

## **F. ISSUES AND CONCERNS OF OUTSOURCING MARKET RESEARCH**

Even if there were consensus on which elements of market research to outsource, there remain a series of issues and concerns associated with the decision. These matters would need to be addressed prior to embarking on significant market research outsourcing efforts, and include such issues as: perceptions of customers, buyers, and other stakeholders; cost factors; socio-economic concerns; process integrity; and core competencies and maintaining skill sets. These and other issues will be presented herein.

### **1. Perceptions**

Perceptions of key stakeholders are an important consideration in significant process changes. In this case, concerns of the buyers, benefits for the users, and views of the public must be taken into account. To reiterate an earlier point, respondents indicated

that there is a lack of perceived value for market research at their activities. This fact would likely influence perceptions on outsourcing market research as well.

Yet, outsourcing is commonly seen as a threat to job security. Sensitivity to the term "outsourcing" which the researcher encountered from the surveyed commands is most likely a direct result of the increased application of Office of Management and Budget A-76 studies throughout Federal organizations. When considering the purchase of market research services from private industry, it must be determined whether it provides benefits as a manpower supplement, in light of manpower shortages and knowledge limitations, conflicting priorities, and time constraints.

For example, despite mandates to conduct market research, resources are not always available to adequately research availability of commercial items, customary modifications, adequate competition, or standard industry practices. As the defense acquisition workforce matures and retires, with more than 50% earning retirement eligibility by 2005 (DoD Acquisition 2005 Task Force Final Report, 2000), the environment will not only welcome methods of enhancing workforce productivity, it will also necessitate it. With the workforce retirement issue comes the tangible threat of reduced collective knowledge and experience, but along with it the likely change in culture toward embracing innovative techniques for enhancing the acquisition effort.

## **2. Cost**

As in most "make or buy" decisions, the solution is not always clear-cut. Rather, there are cost and qualitative factors that must be considered to support a decision. In the case of market research, the Government is perceived by many to lack effective training

and concise procedural direction. By contracting for market research services, the Government is able to tap into the resources of industry experts.

There are financial costs associated with both the outsourcing and retaining of market research functions. First of all, there are costs associated with poorly executed market research, in the form of inadequate competition, unsubstantiated price reasonableness determination, and improper commerciality determination, to name a few. Conversely, there are costs associated with outsourcing the functions, whether the pricing mechanism is on an hourly basis, estimated level of effort, or other mechanism. If buying the market research function is deemed more economically viable than continuing this effort in house, or not adequately performing the function in house, it must be considered for the rest of its merits and disadvantages.

While the Information Age has created opportunities to improve efficiencies, it has also given birth to an overpopulated information market. By buying market research from stable industry experts, DoD could reduce its vulnerability to the unstable e-commerce market. While the volatility subsides in the overpopulated dot-com and virtual corporations market, DoD could minimize its investment in manpower, resources, and time on short-lived processes and sources. Monitoring these changes in private industry would require significant resources to carry out in-house. Admittedly, this volatility could also pose a challenge in selecting stable market research firms.

Perception that we are paying for a “soft science” may serve the opponents of this idea. Market research is not easily quantified, and the best methods have not been dictated. The “soft science” concept may be a fundamental reason that the Government has been slow to implement widespread market research training.

Further, it would be difficult to quantify benefits and monetary value of buying the market research function, whether on a microscopic or macroscopic scale. Nonetheless, commercial firms purchase market research services under different pricing options. The pricing structure could be accomplished numerous ways, such as on an hourly wage rate, as a percentage of contracts' estimates, or an annual fee based on estimated usage rates.

Additionally, paying for this service allows the Government to keep pace with technological and procedural changes, in keeping with the intent of the National Defense Authorization Act to capitalize on best commercial practices. Industry overall is becoming more specialized, and "in the aggregate, American firms are buying more and making less." (Brower, 1997)

### **3. Socio-economic Concerns and Process Integrity**

Dependency on the private sector for market research raises the question of whether socio-economic goals could be satisfactorily achieved since for-profit firms are not guided by the same socio-economic concerns as Government. However, stipulations could be written into the scope of the contract to hedge against this concern. Similarly, the source(s) would have to stand up to the same level of ethical scrutiny as the Government acquisition force. This would be difficult to regulate. For example, there may be a perceived conflict of interest when the selected source of the market research services retains defense contractors as clients as well.

Similar to the potential conflict of interests associated with socio-economic matters, concerns over integrity of the process and retaining a level playing field could arise. For example, proprietary concerns may surface as market research firms seek to

keep abreast of technological advancements and industry changes. For outsourcing to succeed, safeguards would have to be in place to ensure that market research services from private industry are unbiased in nature, yet protective of proprietary issues where warranted.

This is easier said than done. In order for a market research firm to be completely impartial, it would need to divest itself of conflicting interests, potentially to the extent that it only works for the Government. As soon as such a restriction is placed on offerors, the number of firms interested in competing to provide such services dwindle. Since one goal of outsourcing market research would be to achieve efficiencies through the technologies and knowledge of commercial firms, it would be counterproductive and would diminish associated benefits if competition were not maximized.

There are less extreme options available. For example, safeguards could include client-list disclosure with proposals, requirements for offerors to include geographic and communication isolation plans for those supporting the Government's contract, or methods for offerors' self-certification to confirm the objective nature of information provided. Different levels of market research services would call for different degrees of precautions. For example, if services were contracted for the purpose of monitoring industry trends, the risks of favoritism associated with conflict of interests would probably be less significant than if services were used to identify sources of supply. Either way, the acquisition strategy would have to address such potential risks, and consider the options associated with mitigating them while not overly restricting competition. The costs of risk mitigation would then need to be considered in light of the perceived benefits, before making the decision to outsource.

#### **4. Core Competencies and Maintaining Skill Sets**

With the respondents' mixed impressions over whether market research is or should be a core competency, as well as differing perceptions on its current effectiveness, it is valid to address market research requirements in light of both technological changes and the aging acquisition workforce. First of all, in the near term, "electronic commerce trends in both Government and the private sector will supplant some traditional market research functions." (Anonymous, 2001) Secondly, with the perception that the Government acquisition force lags behind the private sector in innovation and efficiency of market research, as well as evidence from McCormack to indicate a lack of effective market research training (McCormack, 1997), it is worthwhile to pursue alternatives to the status quo.

Ineffectiveness in market research has repercussions throughout the acquisition process. Market research is not just the latest trend in acquisition reform. It has always been and will continue to be an essential tool for seeking complete information in support of business decisions. As a result, not developing market research as a core competency among defense acquisition personnel has long-lasting negative effects. The researcher perceives delay in developing this integral competency as putting off the unavoidable. Admittedly though, the respondents' references to existing obstacles of conflicting priorities, short-term management horizons and other barriers to effective market research, reveal that training programs and increased market research emphasis have been minimally effective. As a result, making market research part of the Acquisition Reform Target Curriculum mentioned above is a timely pursuit, in conjunction with existing and

new market research training programs such as Federal Acquisition Institute's (FAI) free online Market Research Course open to the public (FAI, 2001).

The underlying message here may not be that motivation to conduct market research is low, but that it is overwhelmed by other factors, to include the reduction in acquisition personnel to such a point that manpower resources will not accommodate much effort beyond sustainment of immediate operations. In other words, market research is done, but not to the extent nor as effectively as it could be if contract managers and their staffs could apply more resources toward long-term strategic planning vice only the immediate workload. Strategic planning would identify vulnerabilities in the operation to include any deficiencies in market research capabilities and the affect on mission accomplishment.

Acquisition workforce training and increased emphasis on urgency to improve market research effectiveness will continue to be the best course of action for DoD activities. However, acknowledging that there are efficiencies to both emulate and acquire from private industry is another step worthy of consideration.

Buying market research services in DoD commodities acquisition may provide an effective solution in this period of rapid technological change. It would allow DoD more time to establish market research as a core competency while capitalizing on a supplier's access to technological innovation. DoD could also supplement its market research proficiency, still developing, if market research training was pursued from private industry, along with the existing acquisition workforce training pursuits.

Training from a private contractor on market research methods, as a tool to bridge the gap between present day and subsequent to the expected knowledge loss associated

with the retirement eligibility of half the acquisition workforce, poses its own quandary. The company providing such training services would be helping to develop DoD into its own competitor, which raises another question over conflicts of interest.

Outsourcing market research does present additional risks in that it may add to the loss of user and buyer institutional memory that is approaching due to the aging acquisition workforce issue. If market research is perceived as a shortcoming in Federal acquisition now, then buying the market research function may even further constrain development of it as a core competency. Reliance on outsourcing as a short-term stopgap measure increases the risk of defense organizations developing dependency on commercial firms for market research while stifling motivation to develop the in-house capability. As mentioned, however, training could be pursued both internally and from external sources as a means of reducing long-term reliance on the private sector.

## **5. Outsourcing Market Research**

The concept of outsourcing market research infers a re-engineering of the market research function. In fact, this may well occur, as the focus among DoD commodity acquisition personnel would shift from conducting all market research functions to now analyzing that portion of the market research information obtained from private industry.

Market surveillance, with more strategic focus such as monitoring market trends, product developments, and technological changes appears to present the greatest potential for outsourcing. Trend analysis and staying abreast of industry changes is particularly important to monitor in highly volatile markets vice stable markets. Currently, instead of actively monitoring trends, users and buyers are more likely to gain insight from vendors and manufacturers who may voice concerns over changes, trends, and difficulties

associated with raw materials, regulations, and labor force matters. By using a market research firm to highlight significant changes in volatile industries, acquisition personnel would be better informed than the present method of learning about only those issues that rise to the surface.

Commerciality determination, which is the source of significant apprehension in DoD commodities acquisition at present, calls for interpretation based on existing regulations, which is best conducted by DoD personnel. However, the information about product development and services that assists in commerciality determination presents an area of support that is worth pursuing. As mentioned before, the analysis of information and safeguarding of such should remain the responsibility of DoD commodities acquisition personnel. If deemed beneficial to buy market research in some form from the commercial industry, there would be alternatives for implementation. As mentioned, the researcher views market investigation functions, such as source evaluation and reasonable price determination, as existing competencies in this arena, which therefore do not present significant marginal benefit to outsource. These functions should continue as the focus in developing market research skills for DoD commodities acquisition personnel. That said, market research contracts could be established in a number of variations: to support specific types of buys or groups of commodities; in highly volatile industries subject to significant technological change or extreme fluctuations in price; by different defense agencies; for purchases of a recurring nature; and more.

Whatever option was chosen for embarking on market research through the commercial market, the ultimate goal should be an increase in DoD market research skills, integration of knowledge management systems to facilitate sharing of market

research information, capitalization on innovation at minimal expense, and adequate security for the integrity of the acquisition process.

But, as in all strategic planning, using outsourcing of market research as a means to optimize resources does not guarantee achieving the intended result. As Mintzberg states, "planning's grandest assumption of all – analysis can provide synthesis" – leads decision makers to believe that charting a stated course of action will provide a systematic solution to a complex web of demands (Mintzberg, 1994).

There is no guarantee that outsourcing market research will garner efficiencies, technological enhancements, and commercial industry insights. But such outcomes are more likely to occur if the contracting activity develops a clearly defined Statement of Objectives (SOO) and measurable performance parameters. The SOO would have greater relevance if jointly devised by a multi-functional team to include members from the buyer and user communities, as well as knowledgeable industry representatives. Other valid concerns are the source and level of funding, available resources for monitoring the contractor's performance, risk management options, and type of contract vehicles.

To summarize, those market research functions that the researcher views as best candidates for outsourcing are those associated with market surveillance, especially in highly dynamic industries. Additionally, market research services could be used to supplement any of the market research efforts perceived as less efficient during periods of personnel fluctuations, unfamiliar purchasing requirements, and other circumstances determined to warrant the expense.

## **G. CONCLUSION**

Market research is not a passing trend in acquisition. It is a relevant, critical tool that is essential in supporting informed business decisions. The defense acquisition environment is a subset of a highly dynamic global marketplace. The rapid pace of technological change as well as the entrepreneurial spirit prevalent in both public and private sectors represents opportunities for enhancing defense commodities acquisition efficiency through better business practices. Market research in the private arena is a proven method of making better business decisions and attaining a competitive edge. In DoD commodity acquisitions, the potential benefits that could be gained by buying market research services from commercial experts warrant consideration of outsourcing these services for specific venues.

## **V. CONCLUSIONS AND RECOMMENDATIONS**

### **A. INTRODUCTION**

This thesis incorporated the use of a questionnaire to survey DoD commodity acquisition personnel as well as conversations with both defense acquisition and private industry personnel in an effort to address the viability of outsourcing market research functions in defense commodity acquisitions. It analyzed the issues and concerns associated with outsourcing market research, considered which elements of market research would be most feasible to outsource, and identified what capabilities exist in private industry to provide market research services.

In this chapter, the researcher presents conclusions derived from this research, as well as associated recommendations for enhancing market research efficiencies in DoD commodity acquisition environments.

### **B. CONCLUSIONS**

Analysis of questionnaire responses and industry capabilities as well as discussions with informed DoD personnel have guided the researcher to the following conclusions concerning market research efforts at DoD commodity acquisition activities.

**Conclusion 1:** Market research strengths are usually aligned with traditional acquisition roles, such as source identification and evaluation, determining competition anticipated, and price analysis. A notable exception to this is in the area of price versus performance trade-offs, which has received more emphasis from best value pursuits and performance-based acquisitions. One likely contributor to this as a strength is due to the historical price analysis requirements.

**Conclusion 2:** Market research weaknesses closely correlate to the newest acquisition requirements associated with mandated preferences for commercial items, performance-based requirements, and emulation of commercial industry's best business practices.

**Conclusion 3:** DoD agencies impose individual constraints that discourage thorough market research, such as the DoN dictating sources to DLA and charging a fee to review source changes. While a Business Case Analysis (BCA) would support a decision of pursuing additional sources if the benefits outweigh the costs for such a review, the result of these constraints in conjunction with the need to conduct a BCA has the collective effect of deterring market research.

**Conclusion 4:** Lack of consistency in market research documentation and data access leads to inconsistencies in research outcomes and related contracting decisions.

**Conclusion 5:** In any organization, commercial or Government, assigning personnel with the sole responsibility of understanding the market – its rate of technological change, trends, players, cost drivers, barriers to entry and so forth – reaps the greatest return in market surveillance.

**Conclusion 6:** Lack of experience and lack of perceived value present the greatest obstacles to effective market research. The nature of market research is such that its benefits cannot be easily quantified, making it vulnerable to more pressing priorities. Additionally, the paradox of commodities acquisition is that the repetitive-purchase makeup and high level of commercial item purchases makes market research a key tool for achieving long-term savings. Yet, the same environment imbues confidence in

knowledge of the marketplace causing a tendency to undervalue additional market research effort.

- **Conclusion 7:** Commerciality determination presents a challenge in the DoD commodity acquisition environment due to differing interpretations and applications, as well as concerns over loss of control of an item.

**Conclusion 8:** Industry possesses adequate methodologies, global technologies, and knowledgeable personnel necessary to provide market research services to DoD commodity acquisition activities.

### C. RECOMMENDATIONS

Based on the conclusions from this research, the following recommendations are made:

**Recommendation 1:** Office of Management and Budget should make a definitive determination of what areas of market research are Government functions and what areas may be considered for outsourcing.

**Recommendation 2:** For the areas determined to be “core competency/Government performance” functions, defense agencies should establish an effective market research training program for the acquisition workforce. Training sessions should focus on newer regulatory requirements, to ensure understanding, compliance, and commitment, and emphasize the role of market research as it contributes to successful accomplishment of these goals.

**Recommendation 3:** Provide fundamental BCA and Total Ownership Cost training so that acquisition personnel can make educated decisions about what market research efforts to pursue and the best methods of pursuing them.

**Recommendation 4:** DoD should establish uniform methodologies and a standardized data management system for storing, retrieving, and analyzing market research information.

**Recommendation 5:** Where workforce numbers permit and procurement volumes warrant, market research should be established as a sole function. Market research specialists should be responsible for conducting supportive market research, training users and buyers in market research methods, application, and documentation.

**Recommendation 6:** Commodity acquisition activities should identify industry categories experiencing significant volatility or other commodity categories deemed highly vulnerable to ineffective market surveillance as candidates for outsourcing applicable market research.

**Recommendation 7:** Defense Supply Centers should conduct a review of the commerciality determination process at these commodity acquisition activities, to compare differences, difficulties, and lessons learned, as a means of facilitating greater understanding of the process and benefits by users and buyers.

**Recommendation 8:** Defense Supply Centers should conduct a BCA regarding estimated costs and benefits associated with outsourcing for market research support services to supplement those areas of market research identified in recommendation 6 above. Where the BCA supports outsourcing, supply centers should supplement existing market research efforts until in-house expertise is established.

## **D. REVIEW OF RESEARCH QUESTIONS**

### **1. Primary Research Question**

Does private industry present a viable option for outsourcing all or part of the market research activities required to support DoD commodity acquisitions?

While there are considerable capabilities in private industry in regards to market research, outsourcing for such services is a decision that must be made on an individual basis by each DoD commodities acquisition organization via such means as a BCA or other cost-benefit analysis. It is unrealistic and overly costly to consider outsourcing all of the market research efforts, for the mere nature of the contracting organizations is such that market research both facilitates and is obtained by other related roles such as source identification and evaluation. The areas most viable and presenting the greatest potential benefits in this environment are centered on those research efforts of long-term strategic importance, where competencies are fewer, such as keeping up with market trends and stability, understanding economic cycles and indicators, and monitoring technological and product developments.

Market investigation functions, such as source identification and price analysis represent those areas of greatest competence, and therefore do not present significant marginal benefit to DoD to outsource. These functions should continue as the focus in developing market research skills for DoD commodities acquisition personnel.

### **2. Subsidiary Research Questions**

- What is the purpose of market research in DoD commodity acquisitions?

Most commonly, market research efforts are used for, and are more effectively executed when undertaken in support of traditional acquisition roles such as source selection and evaluation, determination of fair and reasonable price, anticipation of

competition, and price analysis. It is less commonly used for strategic pursuits such as gaining a competitive advantage or monitoring market trends and economic indicators.

- How are the market research functions currently performed in DoD commodity acquisitions?

The most common methods or sources for conducting market research are accessing the most readily available information, such as acquisition history files, company catalogs, and company representatives.

- Are there organizational or other factors that limit DoD's ability to perform successful market research in commodity acquisitions?

Heavy workloads, minimal perceived value of market research, short-term management perspectives, and the lack of research experience pose the greatest impediments to successful market research.

- Are there market research functions in commodity acquisitions that must be performed by Government personnel?

Application of market research information in decision-making is essential to ensure the integrity of the acquisition process. Thus, the analysis of information and safeguarding of such information as to ensure a level playing field are essential functions that should remain the responsibility of Government personnel.

- What market research functions are currently available from private industry?

Industry not only possesses the requisite skills, experience, and technology to effectively conduct market research for DoD, but is also interested in providing these services.

#### **E. AREAS FOR FURTHER RESEARCH**

The researcher proposes the following areas for further study:

Conduct a BCA associated with either a highly volatile industry or other area deemed highly vulnerable to ineffective market research, to support a decision of whether to outsource some of the associated market research functions.

Draft a Statement of Objectives for outsourcing different market surveillance or market investigation functions. Develop measurable performance parameters by which potential offerors can develop proposals and contractors may have performance evaluated.

Analyze the impact of the mandated preference for commercial products and services resulting from FASA in 1994. Compare and contrast the methodologies, difficulties, and results of commerciality determinations at different DoD procurement activities.

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## **APPENDIX A. MARKET RESEARCH QUESTIONNAIRE**

### **MARKET RESEARCH IN DoD COMMODITY ACQUISITIONS**

#### **INTRODUCTION**

This questionnaire is being used as a tool to support thesis research as part of the requirements for the Masters of Science in Management program at the Naval Postgraduate School. The questionnaire is aimed at providing the researcher with qualitative information regarding the role and status of market research in the DoD commodity acquisition arena. Some recipients may not directly deal with this field, but have past experience or indirect knowledge of the subject. Each recipient is encouraged to answer questions to the best of his/her ability, without regard for what requirements may call for in regulations. Titles are provided at the beginning of each section to identify the focus of that section. Each section will conclude with an opportunity to provide additional comments, as desired.

Your submission will remain anonymous, in order to promote openness and objectivity. However, any responder may provide his/her contact information voluntarily, if willing to answer follow-on questions for clarification purposes. The section on background is asked simply to understand the level of experience and job responsibility of the responder. Your time is sincerely appreciated.

#### **BACKGROUND**

Please describe your level of past and/or current experience and responsibility in DoD commodity acquisitions:

#### **PURPOSE OF MARKET RESEARCH (MR) IN COMMODITY ACQUISITIONS**

Do the following Market Surveillance functions take place in your organization's commodity acquisitions?

Answer "yes" or "no" after each. If yes, indicate how well you feel your organization accomplishes the item: "E" for "exceptionally", "A" for "adequately", "M" for "marginally".

- Strategic planning
- Monitoring of technological trends and industry capabilities
- Monitoring of product development and availability

- Gaining competitive advantage
- Identifying sources of supply
- Informed decision making
- Price vs. performance trade-offs
- Understanding stability of industries
- Monitoring market trends and economic indicators
- Other, explain

Do the following Market Investigation functions take place in your organization's commodity acquisitions?

Answer "yes" or "no" after each. If yes, indicate how well you feel your organization accomplishes the item: "E" for "exceptionally", "A" for "adequately", "M" for "marginally".

- Defining requirements
- Determining commercial item availability
- Determining fair and reasonable price
- Determining the practicality of modifying requirements in order to buy commercial items/services
- Understanding standard business practices, i.e. warranty, svc contracts, etc.
- Estimating the level of competition anticipated
- Source evaluation
- Obtaining reference information
- Socio-economic investigation
- Other, explain

Are there areas of MR functions (surveillance or investigation) that you perceive as definite strong points in your organization's commodity acquisitions?

Are there areas of MR functions that you perceive as notable weaknesses?

Additional comments pertaining to the purpose of MR in your organization?

## **HOW IS MR CURRENTLY PERFORMED IN COMMODITY ACQUISITIONS?**

Are the following methods or resources used to conduct MR in your organization?

Answer "O" for "often", "S" for "seldom", "N" for "never".

- Professional journals
- Industry publications
- Government publications
- Online publications
- Trade associations
- Trade shows
- Company representatives
- Company catalogs or brochures
- Chamber of Commerce
- Acquisition history files/databases
- Supplier surveys
- Supplier references
- Commercial Advocates Forum
- Bureau of Labor and Statistics
- Other market research indicators (i.e. PPI, CPI)
- NIST, ANSI
- Yellow pages
- Market surveys
- CBD announcements
- Internet searches
- GSA, FSS
- Support services contractors
- Industry forums for buyers and sellers
- Other, explain

Additional comments regarding what methods or resources are used in conducting MR at your organization?

**WHAT ORGANIZATIONAL OR OTHER FACTORS LIMIT OPTIMAL PERFORMANCE OF MR?**

Is MR a core competency in your organization?

Do you think that the personnel working in your organization perceive MR as effective in your organization?

Do you think that those external to your organization perceive MR as effective in your organization?

How are working units grouped in your commodities purchasing organization?

- Knowledge or skill (engineering, market research, finance, contracting, etc.)
- Product
- Customers or clients (service, mission, region)
- Geography
- Other, specify

Are there personnel in your organization with the sole function of performing MR, or is the function incorporated into other positions?

If MR is a sole function, are MR specialists assigned to the working units or does one specialist support multiple units?

What is the experience level of the MR specialist, if applicable?

Is MR information shared between working units?

If so, how?

- Database

- Hard copy acquisition history files
- Other, specify

Do any of the following factors hinder your organization's ability to perform successful MR? Answer yes or no.

- Geography
- Diversity of products
- Lack of perceived value for effort/cost
- Short-run versus long-run management horizons
- Inadequate management information systems
- Lack of experience or knowledge in MR methods
- Other, explain

If you think MR is not a core competency, how would you improve MR in your organization?

If you think MR is a core competency, but is perceived as less than effective, how would you improve your organization's reputation in this area?

Additional comments regarding organizational or other factors influencing effective MR?

**ARE THERE MR FUNCTIONS THAT MUST BE PERFORMED BY GOVERNMENT PERSONNEL?**

This area is open for individual comments:

**WHAT MR FUNCTIONS/SERVICES ARE CURRENTLY AVAILABLE FROM PRIVATE INDUSTRY?**

If private industry were to offer MR services, which MR functions would you see as most valuable in commodity acquisitions?

Do you have knowledge of MR services available from private industry in the following areas?

- Source identification
- Source evaluation
- Price analysis
- Trend analysis
- Commercial product/service identification
- Industry standard practices
- Requirements definition
- Other, explain

Additional comments on using private industry to supplement MR efforts?

Additional comments on any questions provided here?

Voluntary disclosure:

Name:

Phone number:

Email address:

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